

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

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In re: Pricing and Procurement of)

Default Service) D.T.E. 99-60

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Initial Comments of Sithe New England, Inc.

Sithe New England, Inc. is pleased to provide the Department of Telecommunications and Energy (ADTE) with comments in response to the Department's June 21, 1999 Order Instituting a Notice of Inquiry/Generic Proceeding Into the Pricing and Procurement of Default Service (AJune 21 Order).

Sithe New England, Inc. (ASithe), is a subsidiary of Sithe Energies, Inc., which owns and operates generating facilities in the United States and internationally. In Massachusetts, Sithe currently operates approximately 2000 megawatts (AMW) of generation assets and is proposing to construct and operate an additional 2865 MW of generating capacity. Sithe presently participates in wholesale electricity markets in New England, including the electricity products markets under the control of the Independent System Operator - New England (AISO-NE).

Sithe has an interest in this proceeding regarding the procurement and pricing of default service because of its involvement as an active participant in the wholesale markets in New England which serve retail customers in Massachusetts. In numerous proceedings, Sithe consistently has advocated for the adoption of federal and state policies that support the efficient functioning of wholesale *and* retail electricity markets. In submitting these Initial Comments, Sithe's goal is to encourage the Department to adopt policies and promulgate rules for default service which are consistent with these efficient market structures.

After reviewing the Department's June 21 Order, including the questions posed to commenters, it is clear to Sithe that there are a number of different ways in which the Department can structure the provision of default service in Massachusetts. For example, as set forth in G.L. c. 164, § 1B(d), Athe distribution company shall procure [default]

service through competitive bidding.≡ This procurement could take the form of (1) a request for proposals (RFP) issued by a distribution company to DTE-approved wholesale providers of service, to supply the distribution company=s provision of default service (see G.L. c. 164, § 1B(d)); (2) a distribution company=s purchase of electricity through the ISO-NE to supply default service provided to consumers by the distribution company (*Electric Industry Restructuring*, D.T.E. 96-100, at 18 (February 20, 1998)); or (3) some combination of these two types of wholesale purchases. For all of these examples, the distribution company B and not the competitive provider B would be making direct sales to customers, and the DTE would approve the terms of retail default service as well as the procurement by the distribution company of the wholesale supply.

At the same time, Section 1B(d) of Chapter 164 allows the Department to authorize an alternate generation company or supplier to provide default service.... if such alternate service is in the public interest.≡ Consistent with this provision, the Department could authorize an alternate provider of default service in a number of ways. First, the distribution company could administer a RFP, and as a result of that RFP, a retail supplier would be selected who then would directly provide default service to customers. Second, an alternate service provider could directly petition the DTE for the right to serve default customers. With both of these approaches to selecting an alternate service provider, the alternate provider, rather than the distribution company, would be making direct retail sales to customers, and the DTE would approve the selection of the retail supplier.

In Sithe=s view, decisions regarding the procurement and pricing of default service in Massachusetts could have a significant effect on the operation of wholesale and retail markets in New England. Still, until the Department determines the mechanics of just how default service will be provided in the Commonwealth, the possible approaches to procurement and pricing of such service are virtually limitless. Accordingly, Sithe will defer its specific comments, including its responses to some of the questions in the DTE=s June 21 Order, until such time as Sithe has had an opportunity to review the comments of other parties.

While many questions regarding the mechanics of how default service remain unanswered, there are, however, a number of general principles that should be adopted by the Department:

If the distribution company remains the direct provider of default service, the Average monthly cost of electricity≡ should be based on the cost of procuring electricity to supply default service. If the distribution company procures electricity through the ISO-NE spot markets, the price should reflect the costs of buying the full array of competitive capacity, energy, and ancillary services in the spot markets, as well as other elements of retail generation service. If procured through a RFP, the price should reflect all the costs associated with obtaining power as reflected in the market-based contracts. If the DTE allows for and selects an alternate retail supplier of default service besides the distribution company, the

average monthly electricity price should reflect the price revealed through the competitive solicitation that was used to select this retail supplier (if a solicitation is employed for such a selection).

If the distribution company remains the direct provider of default service, any bad debt expenses associated with providing this service should not be imposed on competitive suppliers. While the Department's regulations state that a distribution company may recover bad debt expenses in a general rate case (220 CMR 11.04(10)(g)), the rules should affirmatively state that a distribution company cannot withhold payment from a competitive supplier if a retail customer fails to pay the generation portion of its default service bill.

Sithe appreciates the opportunity to provide its Initial Comments regarding default service and looks forward to further participation in this proceeding.

Respectfully submitted,

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